

EXHIBIT B

TO

PLAINTIFF'S RESPONSE

TO DEFENDANT'S

MOTION TO DISMISS

SECOND AMENDED

COMPLAINT

Docket Number 7270 - March 30, 2008

STATE OF VERMONT
PUBLIC SERVICE BOARD

DOCKET NUMBER 7270

JOINT PETITION OF VERIZON NEW ENGLAND INC.,
D/B/A VERIZON VERMONT, CERTAIN AFFILIATES
THEREOF, AND FAIRPOINT COMMUNICATIONS, INC.
FOR APPROVAL OF AN ASSET TRANSFER,
ACQUISITION OF CONTROL BY MERGER AND
ASSOCIATED TRANSACTIONS, INVOLVING THE
PROPOSED SALE OF VERIZON VERMONT'S LONG
DISTANCE AND LOCAL EXCHANGES SERVICES IN
VERMONT TO FAIRPOINT COMMUNICATIONS --

March 30, 2008
2 p.m.

112 State Street
Montpelier, Vermont

Hearing held before the Vermont Public
Service Board, at the Third Floor Hearing Room, Chittenden
Bank Building, 112 State Street, Montpelier, Vermont, on
March 30, 2008, beginning at 2 p.m.

P R E S E N T

BOARD MEMBERS: James Volz, Chairman
David C. Coen
John D. Burke

STAFF: George Young
Jay Dudley

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1 bonds.

2 CHAIRMAN VOLZ: No. But the interest
3 rate itself affects the price you get paid for
4 the bonds, right?

5 MR. MOORE: No. Verizon -- at the end
6 of the day Verizon gets 540 million dollars in
7 debt reduction of its own debt. That's all.
8 Verizon's interest is to see that interest
9 rate as low as possible, so that you can still
10 sell these bonds. And we can --

11 CHAIRMAN VOLZ: Why don't you have your
12 witness explain that. Because I really would
13 like to have it under oath.

14 MR. MOORE: I would like to have the
15 witness sworn in. Janet Garrity is on the
16 phone.

17 THE WITNESS: Yes, I'm on the phone.

18 BOARD MEMBER COEN: Will you raise your
19 right-hand.
20
21
22
23
24
25

1 JANET GARRITY

2 having been first duly sworn, was examined and
3 testified as follows:

4 CHAIRMAN VOLZ: Thank you.

5 DIRECT EXAMINATION BY MR. MOORE:

6 Q. Ms. Garrity, this is Alex Moore. Hi, how are
7 you?

8 A. Okay, Alex.

9 Q. Just for the record, please state your name.

10 A. Janet M. Garrity.

11 Q. Ms. Garrity, what is your position at Verizon?

12 A. I'm Vice President, Financing and Cash
13 Management, and I'm an Assistant Treasurer of Verizon
14 Communications.

15 Q. Can you briefly explain what your
16 responsibilities are in that position?

17 A. I'm responsible for executing all financing
18 for Verizon Communications and its subsidiaries. And I
19 provide a centralized treasury organization to conduct all
20 of our banking and cash management activities for Verizon
21 and all of its subsidiaries.

22 Q. Have you been involved in the financing with
23 respect to the FairPoint transaction?

24 A. Yes, we assisted -- I assisted FairPoint in
25 securing this financing in connection with the spin and

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1 the merger.

2 Q. Okay. You're aware then this issue we are
3 talking about that is part of the purchase price that
4 FairPoint pays to Verizon at the closing comes in the form
5 of spinco bonds, right?

6 A. That's right.

7 Q. Can you explain what happens to those bonds
8 upon their issuance?

9 A. Yeah. Well Verizon New England is going to
10 contribute assets to spinco. In an exchange for that
11 spinco is going to issue the spinco notes, the securities,
12 with a value of just under 540 million to Verizon New
13 England. The notes have been sold by underwriters, and
14 they are currently priced to yield 13 and-a-half percent.

15 When those distributions from spinco happens,
16 Verizon New England will be the holder of the bonds, and
17 then there is intercompany transactions which will
18 transfer the spinco notes up to Verizon Communications.

19 Q. Okay. That's the parent company. What
20 happens then?

21 A. Well late last week Verizon Communications
22 entered into an exchange agreement with the group of
23 underwriters who have been out selling these bonds on
24 FairPoint and Verizon's behalf to the bondholders. And we
25 entered into an exchange agreement with these under-

1 writers who were currently holding about 543 million
2 dollars of Verizon short-term obligations known as
3 commercial paper. And these underwriters and Verizon had
4 agreed to exchange approximately 527 million dollars of
5 the Verizon commercial paper for the spinco notes that
6 Verizon will be holding at the time.

7 This exchange is going to take place
8 immediately following the merger of spinco and FairPoint.
9 So all of this happens at the closing.

10 Q. Okay. And what's the reason for the
11 difference between the 527 that they -- in commercial
12 paper that the underwriters hand over to Verizon, and the
13 540 million in spinco notes?

14 A. Sure. The 540 million dollars is the value of
15 the notes to the holder. And the 527 million is the value
16 that Verizon is going to receive because we are paying the
17 underwriters 13 million dollars to spend the last several
18 weeks selling and distributing these spinco notes to the
19 ultimate bondholders.

20 Q. Okay. So after the -- once the underwriters
21 have the spinco notes, what do they do with them?

22 A. The underwriters are going to give them to
23 individual investors, and the underwriters are going to
24 receive the cash for the bonds.

25 Q. Okay. So the underwriters have presold the

1 spinco notes to investors?

2 A. That's right. They have been out for the past
3 several weeks, along with FairPoint senior management,
4 describing the securities, describing the company, selling
5 the notes.

6 Q. Okay. So that transfer takes place at the
7 closing as well; is that correct?

8 A. That is correct.

9 Q. So let's stop. At the end of the closing,
10 tomorrow, let's just go through the different parties, and
11 maybe you can tell me where they end up. So at the end of
12 the closing tomorrow, where does Verizon end up with
13 respect to this part of the transaction?

14 A. Okay. Verizon is not going to hold the spinco
15 notes any more. And Verizon is going to get to retire
16 approximately 520 million dollars of its current
17 outstanding debt.

18 Q. Okay.

19 A. And the underwriters, they are going to
20 distribute the bonds to the bondholders, and they are
21 going to receive 13 million dollars in fees for that.

22 Q. Okay. And where do the bondholders end up?

23 A. The bondholders end up having an obligation of
24 FairPoint, and they are going to get paid the semiannual
25 interest payments, and then they will get the principal

1 back at the end of the maturity of the notes.

2 Q. Okay. So of these parties, who benefits from
3 the -- having a higher interest rate?

4 A. Well that would be the investors. The
5 bondholders.

6 Q. Okay. Who benefits from having a low interest
7 rate?

8 A. Well the FairPoint shareholders would benefit
9 from a low interest rate.

10 Q. And does Verizon receive interest on the
11 bonds?

12 A. Verizon won't receive any interest on the
13 bonds because Verizon is exchanging these bonds for
14 Verizon's debt outstanding immediately at the closing.

15 CHAIRMAN VOLZ: I had a question. What
16 if -- if the interest rate were lower, would
17 Verizon get a different amount than it's
18 getting when they sell the bonds, and what
19 would that be?

20 THE WITNESS: The interest rate has
21 already been set by the folks who are
22 interested in purchasing the bonds. The
23 bondholders, so I'm not quite sure I
24 understand the question.

25 CHAIRMAN VOLZ: Well if it had been set

1 at a different amount, at a lower or higher
2 amount, what would be the effect on the net
3 proceeds to Verizon?

4 THE WITNESS: Well Verizon was
5 interested in selling 540 million dollars
6 worth of bonds. If the interest rate were
7 lower, we wouldn't have been able to sell 540
8 million dollars worth of bonds.

9 CHAIRMAN VOLZ: All right.

10 MR. MOORE: Maybe I can unpack that a
11 little bit. I think it's a little bit --

12 CHAIRMAN VOLZ: Well I would really like
13 to get this from the witnesses under oath. So
14 in other words, what you're saying is the
15 interest rate has to be high enough in order
16 to sell the amount you want to sell.

17 THE WITNESS: That's correct.

18 CHAIRMAN VOLZ: And if it's not high
19 enough, then you just don't have a
20 transaction.

21 THE WITNESS: That's correct.

22 CHAIRMAN VOLZ: And for the amount. So
23 at one point you testified that Verizon was
24 going to get 527, and then a minute later you
25 said 520. What's the difference between those

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1 two numbers?

2 THE WITNESS: I think I either said 540
3 or 527. 540 is the proceeds from the bond
4 issuance, and 527 million dollars is the value
5 of the commercial paper that Verizon will
6 receive in exchange.

7 CHAIRMAN VOLZ: Okay. And then --

8 THE WITNESS: The difference between the
9 two is the 13 million that the underwriters
10 see.

11 CHAIRMAN VOLZ: I thought you also
12 mentioned 520 at one point.

13 THE WITNESS: I don't think so.

14 CHAIRMAN VOLZ: All right. I guess
15 maybe I misheard.

16 BOARD MEMBER COEN: Let me ask a
17 question. Okay. Has Verizon at all
18 considered holding on to the paper themselves,
19 at the interest rate that has been discussed
20 in this case previously and agreed to, and
21 therefore -- and also save the fee of 13
22 million dollars to the bond sellers?

23 THE WITNESS: No.

24 BOARD MEMBER COEN: This has never been
25 under consideration?

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1 THE WITNESS: Never.

2 BOARD MEMBER COEN: Okay. Had the
3 interest rate that had been agreed to and
4 discussed in this case been under
5 consideration?

6 MR. MOORE: Mr. Coen, could I just ask
7 to clarify what you mean by the interest rate
8 that's been discussed?

9 BOARD MEMBER COEN: No. We have in our
10 filings an interest rate of around 8
11 and-a-half or 9 percent.

12 CHAIRMAN VOLZ: That's been assumed in
13 all --

14 BOARD MEMBER COEN: That's been assumed,
15 and that's why we are here. So I was
16 wondering if that was even discussed by
17 Verizon as being an appropriate interest rate.
18 And I remind you, you're under oath.

19 THE WITNESS: Is there a question for
20 me?

21 BOARD MEMBER COEN: It certainly is.

22 THE WITNESS: Verizon has been
23 interested in selling the bonds to
24 underwriters or having underwriters sell the
25 bonds to third parties because Verizon has

1 always been interested in exchanging these
2 bonds for Verizon commercial paper. That
3 enables us to have a tax free transaction with
4 FairPoint. So that is the only thing that we
5 have had any interest in.

6 MR. MOORE: I have more questions for
7 her. I'm happy to let you -- just so you
8 know, I have more.

9 CHAIRMAN VOLZ: Okay.

10 MR. DUDLEY: Ms. Garrity, my name is Jay
11 Dudley. I'm an analyst for the Board.

12 THE WITNESS: Yes.

13 MR. DUDLEY: What the Board is trying to
14 get their arms around is what is driving the
15 rather significant disparity between the 8
16 and-a-half percent interest rate that we were
17 made aware of in Mr. Leach's testimony from
18 January, and now the 13, and what you were
19 saying is -- is it 13 and-a-half or 13 and an
20 eighth? Can we clarify that.

21 THE WITNESS: Sure. The coupon on the
22 bond is 13 and an eighth. And it was priced
23 to yield 13 and-a-half percent.

24 MR. DUDLEY: Okay. And is this
25 considered subordinated debt? Is this

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1 subordinated debt in light of the overall
2 transaction?

3 THE WITNESS: This is subordinate to the
4 debt in the credit facility because that is
5 secured debt.

6 MR. DUDLEY: Okay. And this is
7 unsecured; correct?

8 THE WITNESS: This is unsecured so it is
9 effectively subordinated. Yes.

10 MR. DUDLEY: So beyond that what is
11 driving the interest rate of 13 and-a-half
12 percent?

13 THE WITNESS: There has been significant
14 changes in the credit market over the past
15 year. I'm not quite sure at what time the
16 interest rate was originally given to you, but
17 interest rates have changed significantly over
18 the course of the year, and investors'
19 appetite for high yield securities is
20 significantly changed from what it had been
21 previously.

22 MR. DUDLEY: So the investors here, if I
23 understand you correctly, are earning a
24 significant risk premium with the current
25 bonds; is that correct?

1 THE WITNESS: Yes. High yield bonds
2 today are yielding significantly more than
3 they were a year ago.

4 MR. DUDLEY: And is there a rating on
5 this debt currently?

6 THE WITNESS: Yes. It's in the single B
7 range.

8 MR. DUDLEY: So it's borderline junk.

9 THE WITNESS: These are not investment
10 grade bonds.

11 MR. DUDLEY: Okay. And just to clarify,
12 Verizon is not receiving any type of premium
13 for this issuance; correct?

14 THE WITNESS: Verizon is not receiving
15 any premium for this issuance.

16 MR. DUDLEY: Okay.

17 CHAIRMAN VOLZ: Do you know what the
18 interest rates that might have been available
19 for this type of issuance or this type of
20 transaction were in the January time frame?

21 BOARD MEMBER COEN: Of this year?

22 THE WITNESS: January of this year.

23 CHAIRMAN VOLZ: Yes.

24 THE WITNESS: We didn't sell -- we
25 didn't go out to sell the securities in

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1 January of this year. There has been very
2 little high yield issuance this year at all.
3 It may have been the fourth or fifth
4 transaction of its type done this year in, you
5 know, a size of 500 million. It's been a
6 difficult time for the high yield credit
7 markets.

8 CHAIRMAN VOLZ: What were the other
9 interest rates of the other three or four that
10 preceded this?

11 THE WITNESS: I know that Charter
12 Communications, I think their rate was around
13 12 and-a-half percent.

14 BOARD MEMBER COEN: You're aware that
15 this was represented to us on the 28th and
16 29th of January at 8 and-a-half percent.

17 THE WITNESS: I don't know.

18 BOARD MEMBER BURKE: Ms. Garrity, this
19 is John Burke. I'm to this point in time a
20 silent member of the Board. But I would be
21 interested in knowing in particular to -- from
22 Verizon's point of view, I'll ask FairPoint
23 this, but you really had little or no concern
24 about what the interest rate that these bonds
25 carried was, did you? You didn't really care

1 what they were, did you?

2 THE WITNESS: I would say that that is
3 not true. I would say that everybody who was
4 involved in the distribution of these bonds
5 was interested in the same thing which was
6 selling all the bonds at the lowest possible
7 interest rate.

8 BOARD MEMBER BURKE: Well you've got to
9 explain to me why then the lowest possible
10 interest rate really mattered much to you.

11 THE WITNESS: Because Verizon's
12 shareholders will be owning 60 percent of
13 FairPoint.

14 BOARD MEMBER BURKE: And so you were
15 concerned then because the cash flow to --
16 that FairPoint would be generating could be
17 significantly affected by the amount of
18 interest they were paying on this particular
19 portion of their debt, is that true?

20 THE WITNESS: I didn't hear the middle
21 of the question. Could you say that again?

22 BOARD MEMBER BURKE: Sure. You were
23 concerned because FairPoint's cash flow and
24 your stockholders are going to own significant
25 parts of FairPoint's stock, the cash flow that

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1 would be available to FairPoint's going to be
2 significantly affected by the amount of
3 interest and the amount of interest that
4 FairPoint pays as a result of this portion of
5 the indebtedness, is that true?

6 THE WITNESS: Well I would say that we
7 wouldn't think that it was significantly
8 higher, that FairPoint has a lower interest
9 rate and hedged their interest on their other
10 debt, and the amount of debt that FairPoint is
11 assuming in this transaction has decreased
12 significantly with the additional cash
13 contributions that Verizon is making.

14 BOARD MEMBER BURKE: The -- it's
15 interesting that you would link those two.

16 THE WITNESS: I think they are just
17 factual.

18 BOARD MEMBER BURKE: Okay for now.

19 CHAIRMAN VOLZ: You had more questions
20 for your witness?

21 MR. MOORE: Let me think -- check to see
22 if you covered them all.

23 CHAIRMAN VOLZ: All right.

24 MR. MOORE: I think that's all I have.
25 Let me just clarify one thing, I think, that

1 the Chairman asked. The Chairman or one of
2 the Board members asked you a few minutes ago,
3 whether Verizon -- maybe it was Mr. Coen --
4 had considered holding on to the bonds. Let
5 me ask you a slightly different question.

6 At the closing, is Verizon free to
7 change its mind and to say, gee, now that I
8 see it's 13 percent, these look pretty good to
9 us and we are going to hold on to them?

10 THE WITNESS: No. There is a number of
11 reasons why we don't want to hold on to those
12 notes. First of all, we have already entered
13 into an exchange agreement with the
14 underwriters, and so we have done that
15 already, we have entered into an agreement
16 with the underwriters to sell these bonds to
17 investors. So these investors expect to
18 receive these bonds on Monday. We expect to
19 exchange them with our commercial paper on
20 Monday.

21 And third, I understand from our tax
22 attorneys that holding the spinco notes could
23 jeopardize the tax free treatment of the
24 entire transaction. So it has never been in
25 our interest to do anything but what we have

1 said all along that we are going to do.

2 MR. MOORE: Thank you. I have no
3 further questions.

4 MR. DUDLEY: Ms. Garrity, are the bonds
5 convertible at any point? Convertible to
6 stock?

7 THE WITNESS: These bonds are not.

8 MR. DUDLEY: Okay. Thank you.

9 BOARD MEMBER COEN: Just a clarifying
10 question. There are no fees or any other kind
11 of payment being -- that would come to Verizon
12 in the sale of these bonds; is that correct?

13 THE WITNESS: There are no fees coming
14 to Verizon.

15 BOARD MEMBER COEN: Thank you.

16 CHAIRMAN VOLZ: So the net effect if I
17 understood your testimony earlier of what
18 Verizon will eventually receive is 527
19 million.

20 THE WITNESS: That is correct.

21 CHAIRMAN VOLZ: Okay.

22 BOARD MEMBER BURKE: And just to be
23 absolutely clear, the other 13 million not
24 realized is being paid to underwriters, and
25 those underwriters are not either directly or

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1 to any significant degree affiliated with
2 Verizon or any other of its affiliates, is
3 that true?

4 THE WITNESS: That is correct. The
5 underwriters are holding Verizon commercial
6 paper, and in exchange for receiving these
7 spinco notes, we are going to get 527 million
8 dollars of our commercial paper back. The
9 underwriters have agreed with investors to
10 sell these bonds for approximately 540 million
11 dollars.

12 BOARD MEMBER BURKE: Ms. Garrity, do you
13 have any general sense on an average maybe, I
14 know there will be obviously different rates,
15 do you have any sense on an average of what
16 the percentage of interest is running with
17 that overall Verizon 527 million dollar debt
18 that's going to be retired?

19 THE WITNESS: The debt that's going to
20 be retired is all commercial paper that was
21 issued in early March and expires in a couple
22 of weeks. And it had an interest rate of 3
23 percent which is, you know, a very short term
24 interest rate. Not something that you could
25 compare with long-term high yield debt of

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1 FairPoint. This debt was -- would only be
2 outstanding for 29 days.

3 CHAIRMAN VOLZ: Does the Department have
4 any questions for this witness?

5 MS. TIERNEY: The Department has no
6 questions.

7 CHAIRMAN VOLZ: FairPoint, do you have
8 any questions?

9 MS. MALMQUIST: FairPoint has no
10 questions.

11 CHAIRMAN VOLZ: Okay. Great. I guess
12 we are done with Ms. Garrity then.

13 MR. MOORE: Would you like me to keep
14 her on the line?

15 CHAIRMAN VOLZ: Sure.

16 MR. MOORE: Okay.

17 CHAIRMAN VOLZ: Thank you, Ms. Garrity.

18 THE WITNESS: You're welcome.

19 CHAIRMAN VOLZ: Who would you like to
20 have testify next, Ms. Malmquist?

21 MS. MALMQUIST: Mr. Volz, I would like
22 to have Mr. Leach speak briefly, and then have
23 Mr. Crowley answer the questions that the
24 Board has raised if that works. So I would
25 imagine you will need to swear them both in.

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1 CHAIRMAN VOLZ: Okay Mr. Leach.

2 BOARD MEMBER COEN: Mr. Leach, are you
3 on the phone?

4 THE WITNESS: Yes, I am.

5 BOARD MEMBER COEN: I remind you you're
6 still under oath.

7 THE WITNESS: Yes, sir.

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